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INDIA'S FUTURE TRADE POSITION IN THE NEAR AND MIDDLE EAST

India's future trade position in the Near and Middle East.

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This study evaluates India's future capacity to export to the Near and Middle East, and the possibility of US exporters gaining the market lost by India.

DEPARTMENT OF STATE

Division of Research for Near East and Africa
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SUMMARY

Before World War II India was not a relatively large supplier to the Near and Middle Eastern area as a whole. Kuwait, the Bahrein Islands, and Afghanistan--countries most accessible to India -- obtained large shares of their imports from India, but these countries are relatively backward and undeveloped, and their combined imports accounted for only a small share of the area's aggregate imports. On the other hand Egypt, Palestine, and Turkey -- the three largest importing countries in the area -- consumed relatively small amounts of Indian goods.

During the war imports from India increased from 4.7 percent of the area's total imports to 29.4 percent, the bulk of the increase being in processed goods. However, it is estimated that in 1946, the first postwar year, India supplied only 8 percent of the area's imports. This decrease is interpreted as the result of return to the trade patterns similar to those existing before the war rather than an inability on the part of India to supply commodities demanded by consumers in the area. India's relative importance as a supplier to the Near and Middle East will probably continue to drop in 1947. As oil production in Kuwait and the Bahrein Islands increases with resulting increased purchasing power, these states are likely to buy more from India, but to register proportionately larger gains in imports from other sources.

American exporters are not likely to be able to capitalize on the indicated decrease in India's trade with the Near and Middle East. The decrease is a manifestation of the process of return to more normal conditions reflecting the termination of wartime exigencies.

INTRODUCTION

Near and Middle Eastern imports from India have decreased considerably since VJ-day. It has been reported that some American exporters are reluctant to fulfill requests from Near and Middle Eastern merchants for the types of supplies that had been imported from India during the war, allegedly for fear that India will soon recapture its wartime markets. This study is based on an analysis of the available statistical data. It undertakes to evaluate the likelihood that India will resume its wartime role as a relatively large exporter to the Near and Middle East, and to determine the feasibility of increasing US exports to the area to fill the gap left by diminution in Indian exports.

Unfortunately, trade statistics are neither complete nor reliable for some of the countries under consideration. The official reports of India (which has a relatively more reliable statistical reporting service than most of the countries of the area) on exports to the Near and Middle Eastern countries are at variance with the reports of these countries as to their imports from India.[1] The statistics of the Near and Middle Eastern countries have been used in this paper rather than those of India, however, because of their greater detail with respect to individual commodities. Caution must be exercised in interpreting the data in view of their possible inaccuracy.

Import data on which this study is based were obtained from the following sources: (1) official statistical reports of the Near and Middle Eastern countries; (2) statistics prepared by the Middle East Supply Center (MESC); (3) dispatches from US Missions in the area; and (4) compilations of US Government agencies, such as the Department of Commerce and the Foreign Economic Administration. The import values are, in general, the declared prices determined on a c.i.f. basis. Since the imports of these countries are priced in terms of their local currencies, these values were converted to dollars at the official rate of exchange to obtain a common basis for comparison.

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1. Adjustment by use of comparisons between the Indian export and the Near and Middle Eastern import figures can only be made for a few commodities for selected years because of the lack of complete and comparable information. This may be partly explained by the fact that India sends a comparatively small portion of its exports to Near and Middle Eastern countries, while the latter obtain a relatively large proportion of their imports from India.

I. PREWAR POSITION

The imports of the Near and Middle Eastern countries from India in the prewar period did not account for a relatively large share of their total imports. Table 1 presents a summary of the values of imports from India, value of total imports, and Indian imports as percentage of total imports, for the twelve Near and Middle Eastern countries for which data are available. The figures represent annual averages for the five-year period from 1935 to 1939 inclusive. In this period the average annual imports from India were valued at $25.8 million, or 4.7 percent of the total value of $543.8 million imported annually by these countries.

No trade statistics are available for Saudi Arabia. The Government of Saudi Arabia does not keep records of imports into the country,[1] so it is difficult to approximate the relative importance of India's trade with Saudi Arabia. It would seem probable, however, that India supplied not less than 26.8 percent (as in Bahrein) of Saudi Arabia's imports and not more than 44 percent (as in Kuwait). This deduction is based on the fact that the economy of parts of Saudi Arabia is similar to that of Bahrein and Kuwait.

No trade statistics are published by the Government of Afghanistan, but the Government of India publishes statistics on trade going through stations on the land frontier routes. These reports provide an account of all trade, regardless of origin, that crosses the border, indicating India's share of this trade. It is estimated that approximately 80 percent of Afghanistan's total prewar imports came across the Indian frontier. The remaining 20 percent probably came across the northern border. This estimate represents only an enlightened guess. For purpose of this analysis Indian supplies are expressed as percentages of the total imports excluding those originating or reexported from USSR and Iran.

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1. D-10, Saudi Arabian Trade Statistics, Jidda, RESTRICTED, June 2, 1946. A compilation of Saudi Arabia's imports in 1938 has been made but it does not give the origin of imports.

TABLE 1. AVERAGE ANNUAL IMPORTS OF SELECTED NEAR AND MIDDLE EASTERN COUNTRIES, 1935-39 SHOWING IMPORTANCE OF INDIA AS SOURCE OF SUPPLY

Country	Imports from India	Total Imports	Imports from India as Percentage of Total Imports
	In millions of US dollars		
Kuwait[a]	1.1	2.5	44.0
Bahrein Islands[b]	2.4	8.6	26.8
Afghanistan	2.1	9.5	21.0
Aden	3.7	26.5	13.4
Iran	4.2	48.3	8.6
Iraq	2.7	39.5	6.9
Anglo-Egyptian Sudan	1.6	29.2	5.5
Cyprus	0.5	9.0	5.5
Syria & Lebanon	1.1	38.6	2.9
Egypt	4.3	172.1	2.5
Palestine	1.1	71.0	1.5
Turkey	1.0	89.0	1.1
TOTAL	25.8	543.8	
Average of all countries			4.7

a. 1939-40 average.
b. 1937-39 average.

Sources:

(1) Foreign Economic Administration, US Government, Middle East Exports and Imports of Major Commodities Showing Principal Countries of Destination and Origin, 1935-1943, (April 1945).
(2) Department of Commercial Intelligence and Statistics, Government of India, Sea-born Trade of British India, various annual reports; Trade of Stations Adjacent to Land Frontier Routes, (March 1940); Report on the Economic and Trade Conditions on the Bahrein Islands for the Year 1939-40.
(3) Unpublished reports of the US Department of Commerce.
(4) Ministre des Finances Government of Iran, Statistique Annuelle du Commerce Exterieur de l'Iran, En 1323 (21 Mars 1944 a 20 Mars 1945).
(5) Ministry of Finance, Department of Customs and Excise, Government of Iraq, Foreign Trade Statistics for the Calendar Year 1944 (also earlier issues).
(6) D-28, Syrian and Lebanese Import and Export Statistics, (Beirut, October 16, 1944) RESTRICTED.
(7) D-19, Annual Statistics of Foreign Trade, various years, (Cairo, Government Press).

Accessibility to India appears to account largely for the variations in India's share of the total imports of the individual countries. Small Indian merchants often traveled to neighboring states carrying their wares with them. Thus, Indian goods accounted for 44, 27, and 21 percent, respectively, of the annual average imports of Kuwait, Bahrein Islands, and Afghanistan -- the three countries most accessible to India. The common use of the Indian rupee as a medium of exchange in the Persian Gulf area undoubtedly serves as an additional stimulant to Indian trade.

It is also interesting to note that there is an inverse relationship between degree of economic development and relative importance of the imports from India. The countries that had the smallest relative imports from India were the relatively more advanced countries in the area. Thus Turkish imports from India only accounted for an annual average of 1 percent of the total value of the imports and Palestine's imports from India accounted for 1½ percent of the total. This relationship is largely due to the fact that India has raw and semi-processed goods available for export -- commodities that are also produced in those countries.

Statistical data as to the type of commodities imported from India are not readily available. Whereas scattered information on the subject is available for Palestine and Egypt (countries consuming few Indian goods in relation to their total imports), none is available for Kuwait, Bahrein Islands, and Afghanistan (large consumers of Indian goods in relation to their total imports). American officials who visited the latter countries reported that foodstuffs, cotton piece-goods, and partially manufactured goods accounted for the bulk of the imports from India. In Egypt over 40 percent of the imported ready-made clothing was reported to come from India in 1938. In Palestine, vegetable oil and oil seeds accounted for the largest relative imports from India -- over 50 percent of this commodity came from India.

II. POSITION DURING THE WAR

The war brought about a drastic change in the existing patterns of trade of Near and Middle Eastern countries. The elimination of the Axis countries as sources of supplies, drastic reductions in commercial transportation facilities, shortage of supplies in the Allied countries, and government regulations greatly altered the prewar trade relationships.

These circumstances resulted in an increase in the relative importance of India as a source of supply for Near and Middle Eastern countries at the expense of other supplying countries. Indian trade with these countries was further favored by policies of the Middle East Supply Center (MESC) designed to encourage the supply of essential commodities from loading areas that were closest to consuming areas. It is not surprising, therefore, to find that during the war the relative importance of India as a source of supply to the Near and Middle East increased considerably.

Import statistics are even less adequate for the war years than for the prewar period; for example, no foreign trade statistics are available for Turkey during the war,[1] and the British have not released trade information for Kuwait and Bahrein during the war.

For lack of better information it is assumed that Afghanistan continued to import 80 percent of its total foreign goods (both of Indian and non-Indian origin) over the Indian border. Although there is some indication that changes have taken place in the trade relationships between Afghanistan and the USSR, their effect is not known. It is interesting to note in this connection that Soviet exports to Iran (Afghanistan's neighbor, which is also contiguous to the USSR and India), decreased from 30 percent before the war to 13 percent in 1943.

Imports of the Near and Middle Eastern countries from India during the war accounted for a relatively large share of total imports. India's relative importance as a supplier increased considerably above that of the prewar years. For example, the relative rank of India as a source of Egyptian imports changed from seventh position in 1935-38 to fourth position in 1943. In the same period India's rank as a source of imports changed from ninth to fifth in Palestine, from fifth to first in Iraq, from fourth to first in Iran, from fifth to first in the Levant States, and from ninth to second in Cyprus.

Table 2 presents a summary of the wartime imports from India the total imports, and Indian imports as percentage of total imports for the Near and Middle East countries for which data are available. The figures represent annual averages for the five-year period, 1940 to 1944 inclusive.

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1. The Turkish Government has refused to release foreign trade data even for confidential use.

TABLE 2. AVERAGE ANNUAL IMPORTS OF SELECTED NEAR AND MIDDLE EASTERN COUNTRIES, 1940-44 SHOWING IMPORTANCE OF INDIA AS SOURCE OF SUPPLY

Country	Imports from India	Total Imports	Percentage of Total Imports Supplied by India
	In millions of US Dollars		
Kuwait[a]	2.7	5.1	53.0
Afghanistan	1.5	6.2	24.2
Aden	45.6	83.1	55.0
Iran	65.6	201.7	32.4
Iraq	87.2	228.7	38.2
Cyprus	5.0	37.8	13.2
Syria & Lebanon	3.3	36.6	9.0
Egypt	16.0	147.6	10.9
Palestine	7.3	46.9	15.7
TOTAL	234.2	793.7	
Average of all countries			29.4

a. Data for 1944 fiscal year only.

During the war the average annual imports from India into the area were valued at $234.2 million, or 29.4 percent of the total average import value of $793.7 million received annually by Kuwait, Afghanistan, Iran, Iraq, Syria and Lebanon, Palestine, Aden, Egypt, and Cyprus. This compares with $20.5 million, or 4.9 percent of a total of $415.0 million imported annually, on the average, between 1935 and 1939 by the same nine countries.[1] The increase in the money value of the imports from India is partially due to the decrease in the purchasing value of Near and Middle Eastern currencies. No information is available as to the change in the relative importance of Indian supplies for the other countries of the area. However, it is believed that the relative magnitude of Indian imports during the war in the Bahrein Islands was probably greater than the average of 29.4 percent, and in Turkey considerably smaller than the 29.4 percent average. For the area as a whole Indian imports probably did not account for more than 30 percent of the total imports. As in the case of the prewar years, data as to the type of commodities imported from India are not readily available. It is difficult to ascertain in what type of commodities the relative increase in Indian imports took place. The available data on the subject are given in Table 3 and, while incomplete, are sufficient to throw considerable light on shifts in commodity movement.

Table 3 presents a comparison of the prewar (1938) and wartime (1943) imports from India as percentage of total imports for commodities for which data are available for Aden, Egypt, Iraq, Iran, Palestine, and Syria. From the table it appears that the largest relative increase in imports from India took place in cotton, cotton piece-goods, clothing, and coal. Substantial relative increases have also taken place in imports of tea. If the data presented are typical for the area as a whole, it would appear that during the war India's importance as a supplier of raw materials and processed goods increased markedly.

III. POSTWAR POSITION

India's position as a supplier to the Near and Middle East has changed since VJ-day. Removal of MESC restrictions and other government regulations, increased availability of

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1. These nine countries accounted for over 75 percent of the imports from India and of the total imports of the twelve countries listed in Table 1.

TABLE 3. RELATIVE IMPORTANCE OF INDIA AS A SUPPLIER OF SELECTED COMMODITIES TO CERTAIN NEAR AND MIDDLE EASTERN COUNTRIES, 1938 and 1943[a]

Country[b]	Commodity or Commodity Group	Percentage of Total Imports Supplied by India	
		1938	1943
Aden	Food, drink, tobacco	36	10
	Raw materials	9	23
	Processed articles	7	60
Egypt	Fruits and nuts	6	10
	Cotton and cotton piece-goods	4	58
	Tea	2	25
	Ready-made clothing	45	73
	Coal and coke	Negligible	41
Iraq	Tea	"	99
	Sugar	"	51
	Cotton and cotton piece-goods	"	88
	Ready-made clothing	"	29
	Artificial silk	"	75
	Timber	15	50
Iran	Tea	68	98
	Cotton and cotton piece-goods	6	64
	Thread	5	70
Palestine	Oil and oil seeds	51	28
	Cotton manufactures	Negligible	43
Syria	Cotton goods	"	27
	Cotton yarn	"	99
	Coal	"	99

a. Data presented in this table were taken from Middle East Exports and Imports, op. cit. and may not be completely reliable. They represent, however, the only available comparable breakdown for the years covered.

b. Based on a compilation, giving the country of origin, of the following percentages of the total commodities imported: Aden, 99.4; Egypt, 85.4; Iraq, 52.0; Iran, 45.7; Palestine, 53.9; and Syria and Lebanon, 67.4.

shipping facilities, alleviation of supply shortages in Great Britain and the US, and the re-entry into the market of some former European suppliers adversely affected India's relatively favorable wartime trade position in the Near and Middle East. Data for 1946 indicate that the relative importance of India as a source of supply for the area decreased substantially. Complete reports on imports during 1946 are as yet unavailable for any of these countries, while detailed information for the first part of the year is available for only five of the countries under consideration.

Table 4 presents a summary of the imports from India, total imports, and imports from India as percentage of total imports for Egypt, Palestine, Iraq, Bahrein Islands, and Iran for 1946. The figures represent estimates calculated by projections based on the assumption that imports throughout 1946 continued at the same average monthly rate as noted in the months for which data for 1946 are available. This projection is made for purposes of comparison with previous years. Its weakness lies in the fact that it does not allow for any seasonal variation in the rate of imports. The Iranian estimate is especially subject to error in view of the fact that data for imports from India are only available for one month.

Estimated imports from India in 1946 accounted for $67.7 million, or 8.0 percent of the total $767.9 million expected to be imported by the countries for which partial data are available. This compared with 28.2 percent, or $176.1 million, of an annual average total of $624.9 million imported during the war by Iran, Iraq, Palestine, and Egypt.[1] It should be noted that the decrease in the value of the estimated imports from India was concurrent with an increase in the estimated value of the total imports. The four countries under consideration accounted for 80 percent of the total imports of the nine countries listed in Table 2. It is therefore probable that the imports from India for the entire area, as percentage of the total imports, showed a similar decrease.

No information is available as to the type of commodities imported from India by Iran, Iraq, Palestine, Egypt, and Bahrein in 1946.

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1. No information is available for the wartime imports of the Bahrein Islands. However, they were probably not relatively large as compared with the other four countries.

TABLE 4. ESTIMATED IMPORTS OF SELECTED NEAR AND MIDDLE EASTERN COUNTRIES, 1946 SHOWING THE IMPORTANCE OF INDIA AS A SOURCE OF SUPPLY

Country	Imports from India	Total Import	Imports from India as Percentage of Total Imports
	In millions of US Dollars		
Bahrein Islands	4.6[a]	12.6[a]	37.0
Iran	22.0[b]	114.2[c]	19.6
Iraq	16.5[d]	94.5[d]	17.3
Palestine	9.6[e]	236.0[e]	4.1
Egypt	9.0[f]	310.2[f]	2.8
TOTAL	61.7	767.5	
Average			8.0

a. D-1, Bahrein, December 5, 1946, UNRESTRICTED. Data for year ending March 31, 1946.
b. Annual estimate based on report for one-month period, June 23 to July 22, 1946, as reported by Iranian Ministry of Finance, Customs Report No. 201.
c. Annual estimate based on report for three month period, March 23 to June 23, 1946 as reported by US Department of Commerce.
d. Based on report for first seven months of 1946. D-89, Baghdad, October 20, 1946.
e. Based on report for first six months of 1946. Government of Palestine, General Monthly Bulletin of Current Statistics, September 1, 1946.
f. Based on report for first eight months of 1946, Kingdom of Egypt, Ministry of Finance, Monthly Summary of Foreign Trade, August, 1946.

It is difficult to predict India's trade position with the Near and Middle East countries during the next few years on the basis of the scanty postwar trade figures now available. In appraising the possible future developments the following factors should be kept in mind as they would tend to discourage India's trade with the area: (1) The present political situation in India is not favorable to a healthy economic situation and is said to have seriously curtailed industrial production -- in the period between August 1946 and January 1947 industrial production in India is said to have dropped 10 to 25 percent and no immediate improvement is foreseen at this time; (2) The overvaluation of the rupee discourages exports from India -- the extent of the overvaluation of the Indian currency is indicated by the wholesale price level which by the end of 1946 had risen to 275 percent, as compared with 100 in 1939; (3) The return of certain European powers as a source of supply to the Near and Middle East countries.

India will probably continue partially to replace Japan as a supplier of relatively inexpensive manufactured goods. However, on the whole, imports from India as percentage of the total imports of the Near and Middle East countries will probably decrease further. They will probably account for more than 4.7 percent, but less than 8 percent of the total imports of the area.

IV. CONCLUSIONS

The decrease in the relative importance of India as a source of supplies to the Near and Middle Eastern countries since VJ-day represents a process of adjustment in the direction of the prewar pattern of trade in the area. This decrease has not resulted in a corresponding decrease in the total value of the imports of the area. This apparent loss of the market by India since the war does not indicate the existence of a potential market which India is no longer able to supply, but the resumption of trade on the part of the Near and Middle with European countries. American exports to the Middle and Near East also increased substantially during the war years. While it is believed that the US will experience little difficulty in maintaining its expanded share in the Near and Middle East market, it does not appear that much benefit will accrue to American exports from the weakened position of India in the market: this assumption is based on the difference in the nature and quality of goods which have been furnished by India during the war years and those normally constituting US exports.

It is doubtful whether competition from western countries can reduce India's share of the total imports of Near and Middle Eastern countries below the prewar level. The total trade of India with the countries of the Near and Middle East is relatively small and is scattered over a very wide area. Indian merchants are much better adapted to dealing with small and widely dispersed customers than are large trading firms. Near and Middle Eastern countries purchase from India the type of commodities available in India for export which are not available from western countries. Imports from western countries are not normally substitutes for imports from India.

The development of oil resources in Saudi Arabia, Kuwait, and the Bahrein Islands will undoubtedly result in expediting the economic development of these countries. US trade will probably benefit from the raising of the standard of living of the population of these countries, not at the expense of Indian imports but in addition to them.